



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
John Taolo Gaetsewe District Municipality
P.O. Box 1480
Kuruman
8460

Date: 30 November 2012

Reference: 21360REG11/12

Dear Ms M.P Bokgwathile

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of John Taolo Gaetsewe District Municipality for the year ended 30 June 2012

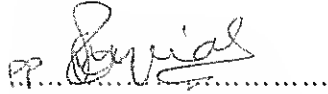
1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. We have not yet received the other information that will be included in the annual report with the audited financial statements and have thus not been able to establish whether there are any inconsistencies between this information and the audited financial statements and the reported performance against pre-determined objectives. You are requested to supply this information as soon as possible. Once this information is received it will be read and should any inconsistencies be identified these will be communicated to you and you will be requested to make the necessary corrections. Should the corrections not be made we will amend and reissue the audit report.
3. In terms of section [121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
4. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
5. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
6. Please notify the undersigned Business Executive / Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.

7. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

A handwritten signature in black ink, appearing to read 'Marshae Papiah', written over a dotted line.

Corporate Executive: Northern Cape

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**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE JOHN TAOLO GAETSEWE DISTRICT
MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the John Taolo Gaetsewe District Municipality as set out on pages XX to XX, which comprise the appropriation statement, the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate evidence for property, plant and equipment disclosed as R47 966 984 (2011: R110 662 611) in note 11 to the annual financial statements due to the municipality not providing a fixed asset register that could be reconciled with the financial statements and general ledger. I was unable to confirm the property, plant and equipment by alternative means. Consequently, I was unable to determine whether any adjustments to property, plant and equipment disclosed were necessary.

Depreciation and amortisation

7. I was unable to obtain sufficient appropriate evidence for depreciation and amortisation disclosed as R4 372 719 (2011: R1 031 770) in note 29 to the annual financial statements as the amount could not be recalculated in the absence of an asset register. I was unable to confirm the depreciation and amortisation by alternative means. Consequently, I was unable to determine whether any adjustments to depreciation and amortisation disclosed were necessary.

Unauthorised expenditure

8. The unauthorised expenditure disclosed as R5 587 123 in note 43.1 to the financial statements was understated by R4 548 288. It was not calculated as required by the definition of unauthorised expenditure as stipulated in section 1 of the MFMA.

Commitments

9. I was unable to obtain sufficient appropriate evidence for commitments disclosed as R6 466 533 in note 46 to the annual financial statements because the municipality was not able to provide me with a list of commitments that supported the figure in the financial statements because the contract register was incomplete. I was unable to confirm the commitments by alternative means. Consequently, I was unable to determine whether any adjustments to commitments disclosed were necessary.

Irregular expenditure

10. The municipality did not disclose all irregular expenditure incurred during the year as required by section 125(d) of the MFMA. The irregular expenditure disclosed as R61 024 225 in disclosure note 43.3 to the financial statements was understated by R3 836 100 as the proper supply chain management processes were not followed in the following instances:
 - The municipality did not obtain three quotations for payments amounting to R179 810.
 - The preference point system was not applied for payments amounting to R253 700.
 - Declarations of interest were not obtained from suppliers for payments amounting to R3 267 110.
 - Tax clearance certificates were not submitted by suppliers for payments amounting to R135 480.
11. In addition, the municipality was not able to provide me with tender documentation for payments amounting to R2 237 000 and support for other procurement payments amounting to R201 578. I was unable to confirm the irregular expenditure by alternative means. Consequently, I was unable to determine whether any further adjustments to irregular expenditure disclosed were necessary.

Contingent liabilities

12. I was unable to obtain sufficient appropriate evidence for contingent liabilities disclosed as R6 053 141 in note 50 as legal confirmation letters could not be submitted for some of the attorneys of the municipality. I was unable to confirm the contingent liabilities by alternative means. Consequently, I was unable to determine whether any adjustments to contingent liabilities disclosed were necessary.

Revenue

13. During 2011 I was unable to obtain sufficient appropriate audit evidence about revenue reflected as R124 557 322. I was unable to confirm the revenue by alternative means. Consequently, I was unable to determine whether any adjustments to this amount and retained earnings were necessary. My audit opinion on the financial statements for the period ended 30 June 2011 was modified accordingly and my opinion on the current period's financial statements is also modified because of the possible effect of this matter on the comparability of the current period's figures.

Qualified opinion

14. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the municipality as at 30 June 2012 and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP the applicable financial reporting framework and the requirements of the MFMA and DoRA.

Emphasis of matters

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

16. Enquiries of management and the attorneys revealed that the municipality is a defendant in the following lawsuits:

- A severance benefit amounting to R6 000 000.
- An arrear salary amounting to R53 141.

The outcome of these lawsuits cannot be determined at present and provision has been made for any liability that may result in note 50 of the annual financial statements. The reliability of the contingent liability made could not be determined.

Material underspending of the budget / Conditional grant not spent in accordance with the purposes for which it was intended

17. Conditional grants of R6 437 714 disclosed in note 8 of the annual financial statements were unspent at year-end. R546 162 of this amount has not been received at year-end and R5 891 552 can be attributed to projects that are a work in progress on the relevant financial year-ends. Strike action that occurred during the year had an impact on the utilisation of the grants.

Additional matters

18. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annexure to the financial statements

19. Appendix E1 of the financial statements indicates that the net surplus of the budget for

the municipality equates to R1 509 861. This is inconsistent with the deficit in the adjusted budget of R253 as disclosed in note 42 to the financial statements.

Unaudited supplementary schedules

20. The supplementary information set out on pages XX to XX, appendices A to F, does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

21. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

22. We performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report for the municipality as set out on pages XX to XX of the annual report.
23. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities or objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPi).

The reliability of the information in respect of the selected development priorities or objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

The material findings are as follows:

Usefulness of information

Presentation

24. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act, 2000 (Act No. 32 of 2000). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

25. Section 41(c) of the MSA requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 49% of the reported objectives, 86% of the reported indicators and 100% of the reported targets are not consistent with the objectives, indicators and targets as per the approved IDP. This was due to the fact that management did not adequately consider the requirements of the MSA when preparing the annual performance report and also did not implement

sufficient appropriate internal controls to ensure that the performance management and reporting is in terms of the applicable legislation and guidelines.

Measurability

26. The FMPPi requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPi, but did not receive the necessary training to enable application of the principles and also due to the lack of processes and systems that should be used to ensure that the municipality achieves its targets.
27. The FMPPi requires that performance targets be measurable. The required performance could not be measured for a total of 37% of the targets. This was due to the fact that management was aware of the requirements of the FMPPi but did not receive the necessary training to enable application of the principles and also due to the lack of processes and systems that should be used to ensure that the municipality achieves its targets.
28. The FMPPi requires that the timeline or deadline for delivery be specified. A total of 80% of the planned targets (as per the approved IDP) and 89% of the reported targets (targets that were reported against in the annual performance report) were not time bound in specifying a timeline or deadline for delivery (please note that the targets as per approved IDP were assessed separately from the targets as per the annual performance report due to the fact that the annual performance report was not aligned to the approved IDP). This was due to the fact that management was aware of the requirements of the FMPPi but did not receive the necessary training to enable application of the principles and also due to the lack of processes and systems that should be used to ensure that the municipality achieves its targets on a timely basis.
29. The FMPPi requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 40% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPi but did not receive the necessary training to enable application of the principles and also due to the lack of processes and systems that produce the performance indicators.
30. The FMPPi requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators/measures were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the lack of key controls in the relevant systems of collection, collation, verification and storage of actual performance information.

Reliability of information

Validity

31. The FMPPi requires that processes and systems which produce the indicator should be verifiable. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the validity of the actual reported performance relevant to 100% of development priorities – basic service delivery, local economic development and municipal financial viability and management. This was due to limitations placed on the scope of my work due to the institution's records not permitting the application of alternative audit procedures.

Accuracy

32. The FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the accuracy of the actual reported performance relevant to 100% of development priorities – basic service delivery, local economic development and municipal financial viability and management. This was due to limitations placed on the scope of my work due to the institution's records not permitting the application of alternative audit procedures

Completeness

33. The FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. I was unable to obtain all the information and explanations I considered necessary to satisfy myself as to the completeness of the actual reported performance relevant to 100% of development priorities – basic service delivery, local economic development and municipal financial viability and management. This was due to limitations placed on the scope of my work due to the institution's records not permitting the application of alternative audit procedures.

Additional matter

Achievement of planned targets

34. I could not determine the achievement of planned targets as the targets reported against in the annual performance report did not agree to the planned targets set in the approved IDP.

Compliance with laws and regulations

35. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

36. The performance audit committee did not meet at least twice during the financial year, as required by Municipal Planning and Performance Management Regulation 14(3)(a).
37. The performance audit committee did not review the municipality's performance management system or make recommendations to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(ii).
38. The performance audit committee did not review all the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
39. The performance audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).
40. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the

municipality's development priorities and objectives set out in its IDP and did not set measurable performance targets with regard to each development priority and objective as required by section 41 of the MSA.

Budgets

41. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Annual financial statements, performance and annual reports

42. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.
43. The 2010-11 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
44. The municipal council did not adopt an oversight report, containing comments on the annual report, within two months from the date on which the 2010-11 annual report was tabled, as required by section 129(1) of the MFMA.
45. The accounting officer did not make public the council's oversight report on the 2010-11 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.

Audit committees

46. The audit committee was not constituted, as required by section 166(4)(a) MFMA as the following requirements were not adhered to:
 - At the beginning of the financial year the audit committee consisted of four members. Two of the members resigned in September and October 2011. The committee was eventually dissolved on 29 February 2012. Therefore three members were not appointed as required throughout the year.
47. An audit committee was not in place for four months of the financial year, as required by section 166(1) of the MFMA.
48. The audit committee did not advise the accounting officer on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management or performance evaluation as required by section 166(2)(a) of the MFMA.
49. The audit committee did not advise the accounting officer on matters relating to the adequacy, reliability and accuracy of financial reporting and information, as required by section 166(2)(a)(iv) of the MFMA.
50. The audit committee did not advise the accounting officer on matters relating to compliance with the MFMA, and DoRA, as required by section 166(2)(a)(vii) of the MFMA.
51. The audit committee did not review the annual financial statements to provide the council with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness and its overall level of compliance with the MFMA and DoRA, as required by section 166(2)(b) of the MFMA.
52. The audit committee did not respond to the council on the issues raised in the audit

reports of the Auditor-General, as required by section 166(2)(c) of the MFMA.

53. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.

Internal audit

54. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:
- it did not report to the audit committee on the implementation of the internal audit plan
 - it did not advise the accounting officer or report to the audit committee on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management and loss control.
55. The internal audit unit did not report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b) of the MFMA.
56. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the MFMA and Municipal Planning and Performance Management Regulation 14(1)(a).
57. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA, the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators], as required by Municipal Planning and Performance Management Regulation 14(1)(b).
58. The internal audit unit did not audit the performance measurements on a continuous basis and/or submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

59. Sufficient appropriate audit evidence could not be obtained that some goods and services of a transaction value above R200 000 were procured by means of inviting competitive bids, as required by SCM regulation 19(a).
60. Sufficient appropriate audit evidence could not be obtained that contracts were only extended or modified after tabling the reasons for the proposed amendment in the council of the municipality, as required by section 116(3) of the MFMA.
61. A list of accredited prospective providers was not in place for procuring goods and services through quotations, as required by SCM regulation 14(1)(a).
62. The prospective providers list for procuring goods and services through quotations was not updated at least quarterly to include new suppliers that qualify for listing, and prospective providers were not invited to apply for such listing at least once a year as per the requirements of SCM regulation 14(1)(a)(ii) and 14(2).
63. Sufficient appropriate audit evidence could not be obtained that all contracts and quotations were awarded in accordance with the legislative requirements and a

procurement process which is fair, equitable, transparent and competitive, as all the required information could not be submitted within the agreed upon time frames.

Human resource management and compensation

64. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by the Regulations on Minimum Competency Levels reg14(2)(a).

Expenditure management

65. An effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, was not in place as required by section 65(2)(a) of the MFMA.
66. The accounting officer did not take reasonable steps to prevent irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
67. Irregular and fruitless and wasteful expenditure was not recovered from the liable person, as the municipality did not perform any follow-ups or investigations relating to the reasons that the irregular and fruitless and wasteful expenditure was incurred, as required by section 32(2) of the MFMA.

Revenue management

68. An adequate management, accounting and information system was not in place which recognised revenue when it was earned and accounted for debtors, as required by section 64(2)(e) and 97(h) of the MFMA.
69. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Asset management and liability management

70. An effective system of internal control for assets (including an asset register) was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

71. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

72. The leadership did not exercise their oversight responsibility to ensure that the financial statements and general ledger were adequately reviewed before the financial statements were submitted for audit purposes as the municipality did not have individuals that were sufficiently skilled to implement all the GRAP requirements.

Financial and performance management

73. Monthly controls (reconciliations and checklists) were not implemented to ensure that the municipality complies with the financial, compliance and performance objectives of

the municipality. This resulted in management not having a tool to monitor the adherence to the necessary requirements.

Governance

74. The accounting officer did not prioritise the establishment of a fully functioning internal audit unit, performance audit committee and audit committee and therefore the functions were not established and functional during the financial year. This resulted in the unit and audit committees not being able to fulfil all their responsibilities.

Auditor General

Auditor-General

Kimberley

30 November 2012



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence